

CONFIDENTIAL

NOTES OF MEETING WITH IAN MAITLAND - 02/09/93

TURKEY

Bestas in Bitlis is owned 50% by RI, 25% by Tekel and the rest is held by the local municipality. It is a 2.5 billion capacity make/pack operation, with a production of Kansas and Best cigarettes running at about 70 million per month total. There is also a small export business of 20 million cigarettes a year to Turkish Cyprus.

Having Tekel as a partner has not resulted in any benefits for Bestas, as a matter of fact there is no participation other than Board membership with no contribution on the part of Tekel. They chose Bitlis because this location was chosen by the Turkish government due to the Kurdish problem and the high unemployment in that area. Bitlis is populated mainly by Kurds. They recently had quite a problem where second shift workers were harassed at gun-point by the Kurds and the factory had to close down because protection money was being demanded. The factory is now heavily guarded. At the present time they are losing money to the tune of UK£ 3 million per annum.

Maitland was initially interested in an equity stake in PHILSA, which I totally excluded and said that the way which Bill Ryan discussed with GCB was a license agreement. Maitland mentioned that that would be O.K., but the major problem is how to deal with the Bestas factory which, if they decided to close down, could present quite some problems for them.

He is meeting with Ryan and Johann Ruppert sometime next week, where he will get direction and then revert to us.

Czech Republic

RI is interested in a license agreement for their brands to be produced in our factories in the Czech Republic. I told him that we would consider, however for the time being we have capacity problems ourselves and need to do certain modifications to primary and secondary before being able to discuss this matter seriously.

Bolloré

He mentioned that RI invested in Albatros for the simple reason that a direct investment in Coralma was not possible due to Seita's first right of refusal in case Bolloré would sell any shares. In addition, Johann Ruppert felt that an association with Bolloré would put him in a favorable position in the event of a privatization of Seita, whereby their interests lie mainly in distribution and not in any of the factories or trademarks.

When questioning him on jointly approaching Bolloré to buy out Seita's interest in Coralma, Maitland said that that would probably not be feasible since Bolloré would want to retain Seita in Coralma due to his interests in France. He also did not believe that Bolloré is willing to sell his interest in Africa, since he is making quite good money,

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has an excellent cash flow and has Rothmans and PM brands under license in any case.

#### Poland

I told Maitland of my concern over possible Polish government requirements of a tender for each factory in Poland. Knowing that BAT, RI, Reemtsma and PM are pretty much decided on which factory they are interested in, I felt there might be a possibility of getting together to find a way to try, together, to avoid a tender. He agreed, and was going to give it more thought as to the best way to proceed. He will get back to me on this issue soon. We both agreed that this could speed up the privatization process considerably.

#### Muratti-Ambassador

I also mentioned to Ian that the royalty arrangements for some of my markets with regard to the Muratti and Ambassador trademarks are straining profitability and make a launch in Hungary, for example, almost unprofitable. I asked him to please investigate possibilities of reducing the royalty to 40 pfennigs from 80 pfennigs per thousand.

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